

This record is a partial extract of the original cable. The full text of the original cable is not available.

UNCLAS SECTION 01 OF 02 PRETORIA 002783

SIPDIS

DEPT FOR AF/S; AF/EPS; EB/TPP/MTA
USDOC FOR 4510/ITA/IEP/ANESA/OA/JDIEMOND
COMMERCE ALSO FOR HVINEYARD
TREASURY FOR BRESNICK AND CUSHMAN
DEPT PASS USTR FOR PCOLEMAN

E.O. 12958: N/A

TAGS: [ETRD](#) [ECON](#) [EINV](#) [SF](#) [AGOA](#) [USTR](#)

SUBJECT: SOUTH AFRICAN AUTOMOTIVE INDUSTRY BENEFITING FROM AGOA

11. Summary. South African automotive exporters appreciate the benefits of duty-free access to the U.S. market under AGOA. Department of Trade and Industry statistics indicate that South African automotive exporters have saved R454.1 million on import duties between 2001 and 2004. BMW was the first carmaker to grab the opportunity provided by AGOA and exported 15,226 of its BMW 3-Series cars to the United States in 2004, up from 853 cars in 12000. Motor vehicle exports to the United States are expected to increase beginning in August 2005, when BMW will start exporting the new BMW 3-series. End summary.

12. According to the Department of Trade and Industry (DTI), 80% of Africa's vehicle output is concentrated in South Africa. Big car firms have invested billions of Rand in their plants since South Africa's adoption of democracy in 1994, taking advantage of the Motor Industry Development Programme (MIDP). The MIDP is a complementation scheme that allows exporters to earn credits based on local content. These credits can be applied against the duty rates for imports and thus are used to offset the cost of their imports. According to Statistics South Africa, the automotive industry in South Africa accounts for about 28% of the country's manufacturing output.

13. South African automotive exporters attribute the improvement in their competitiveness to the MIDP, combined with the boost from duty-free access to the U.S. market through AGOA. USITC data for 2004 indicates that light motor vehicles accounted for 70% of all automotive imports (HTS 8701 - 8708) from South Africa. Automotive components contributed 19% and commercial vehicles 8%. According to the National Association of Automobile Manufacturers of South Africa (NAAMSA), 14% of all light passenger vehicles exported from South Africa are destined for the United States, making it South Africa's fourth largest destination for this category. In the case of automotive components, 8.4% of all exports are making their way to the United States, the third largest export destination next to Germany and France.

14. DTI statistics on duty savings in terms of AGOA indicate that South African automotive exporters saved R454.1 million on import duties between 2001 and 2004. Norman Lamprecht, Manager Automotives at the Department of Trade and Industry, said that the benefits from AGOA for the South African automotive industry are broader than the mere duty- and quota- free access to the U.S. market, it also stimulates opportunities for a chain of collaborative arrangements with domestic automotive manufacturing companies from third countries, that want to access the United States via South Africa. According to him, these collaborative arrangements enhance the domestic automotive industry's competitive production capabilities. The South African Motor Industry supports the current U.S.-SACU free trade agreement negotiations, as it would assure them that the temporary opportunities provided by AGOA would be converted into a permanent agreement.

15. BMW was the first carmaker to grab the opportunity provided by AGOA and is also the largest South African light motor vehicle exporter to the United States. According to Andries Cronje, General Manager Finance at BMW, 15,226 of the BMW 3-Series cars assembled in South Africa, were exported to the United States in 12004. Apart from engines and gearboxes, everything in the South African 3-Series BMW comes from South Africa. Cronje said that because of the duty-free access provided under AGOA, BMW saves about R2,500 on each car it exports to the United States, depending on the option off-take and the exchange rate. BMW has, since 2002, invested R2 billion into its plant's development and created the conditions for an annual production capacity of 75,000 cars.

16. United States International Trade Commission (USITC) figures demonstrate how the five-year old AGOA initiative has been successful in stimulating trade between the two regions. The import of motor vehicles (HTS 8703) from South Africa increased from a mere \$50,000 in 1999 to \$625 million in 2003. These figures declined, however, to \$410 million in 2004 and continued this trend into the first five months of 2005 with a further 54% y/y decline (down to \$84.5 million from \$184.4 million) because of a revamping of production in South Africa. NAAMSA statistics show that 15,322 passenger cars, largely by BMW SA, were exported

to the United States in 2004, down from the 20 899 units exported in 2003. According to Norman Lamprecht, the model run-out of the 3 series BMW as a result of the launch of the new generation 3-series BMW in August 2005, was responsible for the decline in export numbers in 2004. Andries Cronje agreed with Lamprecht's reason for the declining export numbers and did not view the strong rand as responsible for this development. Even with the strong rand, NAAMSA expects motor vehicle exports to the United States to increase beginning in August 2005 when BMW will start exporting the new BMW 3-series.

FRAZER